

**ACCOUNTING
AND
AUDITING
PROCEDURES MANUAL
FOR CONTRACTORS OF
ADHS FUNDED PROGRAMS**

Compiled by

Arizona Department of Health Services

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CHAPTER 1

Financial Responsibilities Under ADHS Contracts, Interagency Service Agreements, and Intergovernmental Agreements

- A. It is the responsibility of each contractor to read the contract and understand the financial accountability requirements of the contract. Of significance are the contract General Provisions, Special Terms and Conditions and Scope of Work Statements relating to financial requirements.
 1. Fee for Service/Fixed Price Contracts
 - a. Contract payments are based on the number of units of service provided multiplied by the unit rate authorized by the contract. The contract rate per unit of service shall be based upon cost or pricing data submitted by persons or organizations. Such cost or pricing data must be based upon and traceable to official accounting records of expense, which have been maintained in accordance with, generally accepted accounting principles.
 - b. While adjustments may be necessary for projected changes, inflation, etc., the starting point should always be the official expense records with the adjustment clearly identified and documented to provide a proper audit trail to the official accounting records. In addition, for the development of unit rates, an appropriate cost allocation system must also be maintained as an integral part of the accounting system to fully document the cost allocation methodologies utilized in calculating the unit rates. All methods of cost allocation must ensure a fair and equitable allocation to all appropriate programs or service units receiving benefits from the costs being allocated.
 2. Cost Reimbursement Contracts
 - a. Contractors are reimbursed for actual costs incurred during the contract period for providing the required contractual services.
 - b. Expenses reported must originate from contractors=official expenditure accounting system which has been maintained in accordance with generally accepted accounting principles. Cost allocation procedures must also be applied as appropriate as an integral part of the accounting system to ensure a fair and equitable distribution of costs if multiple programs are involved.
- B. In summary, each contractor must maintain an official accounting system, which properly records all financial transactions and equitably allocates expenses to programs or services in accordance with generally accepted accounting procedures. Contractors with fixed price contracts will utilize the financial data for establishing the unit rates of future contracts. Contractors with Cost Reimbursement contracts will report the actual expenditures on a current basis for reimbursement purposes. In either case, the contractors accounting system is to provide an audit trail wherein the financial data reported can be later verified.

CHAPTER 2

Federal Financial Guidelines

- A. When a contract identifies federal funds as a funding source, the contractor has the responsibility to ensure compliance with the appropriate federal financial regulations as follows:
1. Non-Profit Organizations:
 - a. Federal OMB Circular No. A-110: Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.
 - b. Federal OMB Circular No. A-122: Cost Principles for Non-Profit Organizations.
 - c. Federal OMB Circular No. A-133: Audits of States, Local Governments, and Non-Profit Organizations.
 - d. Federal OMB Circular No. A-133: Compliance Supplement.
 - e. Federal Law: 31 CFR Part 205, Subpart C: Federal Funds Transfers, Cash Management Improvement Act (CMIA) of 1990, Other Recipients. Per the CMIA, Subpart C, organizations receiving federal funds from ADHS will be subject to the CMIA.
 2. Government Entities:
 - a. Federal OMB Circular No. A-102: Uniform Requirements for Assistance to State and Local Governments.
 - b. Federal OMB Circular No. A-87: Cost Principles for State and Local Governments.
 - c. Federal OMB Circular No. A-133: Audits of States, Local Governments, and Non-Profit Organizations).
 - d. Federal OMB Circular No. A-133: Compliance Supplement.
 - e. Federal Law: 31 CFR Part 205, Subpart C: Federal Funds Transfers, Cash Management Improvement Act (CMIA) of 1990, Other Recipients. Per the CMIA, Subpart C, organizations that qualify as non-state subrecipients who receive federal funds from ADHS will be subject to the CMIA.
 - f. Common rule for Uniform Administrative Requirements for Grants and Cooperative Agreements to State And Local Governments.
 3. Commercial or for Profit Organizations:
 - a. Code of Federal Regulations: 48 CFR Chapter 1 (10-1-86 Edition) Part 31 - Contract Cost Principles and Procedures, Subpart 31.2 - Contracts with Commercial Organizations.
- B. Specific contract clauses may also refer to other federal regulations, which must be observed. Copies of federal government publications may be ordered from:

Superintendent of Documents
U. S. Government Printing Office
P.O. Box 371954
Pittsburgh, PA 15250-7954

Federal OMB Circulars can also be reviewed and printed from the OMB Web-Site, (www.whitehouse.gov/omb/).

CHAPTER 3

Internal Controls

A. Definition: The AICPA's Statement on Auditing Standards No. 78 (SAS-78) defines internal control as a process *effected by an entity's board of directors, management, and other personnel - designed to provide reasonable assurance regarding achievement of objectives in the following categories:*

1. *Reliability of financial reporting;*
2. *Effectiveness and efficiency of operations;*
3. *Compliance with applicable laws and regulations;*

B. Purpose

1. Internal control serves all of the above purposes. In conjunction with these purposes, it also serves to safeguard the assets of the entity from unauthorized acquisition, use, or disposition and to facilitate more efficient audit of the financial records by enabling the auditors to use less costly tests at more convenient times and to a lesser extent, thus reducing the amount billed by the auditor.
2. In a smoothly functioning internal control environment, assets that are at substantial risk of loss, misappropriation, or other diversion are protected by various restrictions as to their access or use. Controls such as daily deposit of cash receipts and tagging all equipment reduce the risk that such assets can be easily lost or removed without timely detection.
3. Auditors rely heavily on internal control in their testwork. A poorly run system results in the auditors doing one of three things to obtain the level of assurance that is not provided by the internal control system:
 - a. Perform tests of a more thorough nature. Usually these tests involve use of more expensive resources, the cost of which is, of course, billed to the client.
 - b. Perform tests at a time closer to the balance sheet date, which is usually at a time when the auditors' resources are most in demand. Such tests, therefore, are more costly to the client under audit.
 - c. Perform more testing. Again, the additional time comes at additional expense.
4. A good internal control system can avoid all of these pitfalls.

C. Components - SAS 78 lists five interrelated components of internal control which it describes as follows:

1. *Control Environment*

Control Environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the following:

- a. *Integrity and ethical values;*
- b. *Commitment to competence;*
- c. *Board of Directors or audit committee participation;*
- d. *Management's philosophy and operating style;*

- e. *Organizational structure;*
- f. *Assignment of authority and responsibility;*
- g. *Human resources policies and practices.*

2. *Risk Assessment*

Risk assessment is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.

Risks can arise or change due to circumstance such as the following:

- a. *Changes in operating environment;*
- b. *New personnel;*
- c. *New or revamped information systems;*
- d. *Rapid growth;*
- e. *New technology;*
- f. *New lines, products, or activities;*
- g. *Corporate restructuring;*
- h. *Foreign operations;*
- i. *Accounting pronouncements.*

3. *Control Activities*

Control activities are the policies and procedures that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities have various objectives and are applied at various organizational functional levels. Generally, control activities that may be relevant to an audit may be categorized as policies and procedures that pertain to the following:

- a. *Performance reviews;*
- b. *Information processing;*
- c. *Physical controls;*
- d. *Segregation of duties.*

4. *Information and Communication*

Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

5. *Monitoring*

Monitoring is a process that assesses the quality of internal control performance over time. It involves the

assessment of the design and operation controls on a timely basis and taking necessary corrective actions. This process is accomplished through ongoing activities, separate evaluations, or by various combinations of the two. In many entities, internal auditors or personnel performing similar functions contribute to the monitoring of an entity's activities. Monitoring activities may include using information from communications from external parties such as customer complaints and regulator's comments that may indicate problems or highlight areas in need of improvement.

D. Responsibility

- a. The components of internal control, as listed above, have a direct relationship with the objectives of internal control. The management of each entity is responsible for determining its own objectives and then organizing the components in such a way as to achieve those objectives. Therefore, the establishment and maintenance of an internal control system will always be the responsibility of the entity's management.
- b. EXHIBIT 1 contains an example of a checklist for evaluating internal controls. This list does not purport to be complete as regards all situations, and the results need to be evaluated within the context of the five components of internal control as listed above. Other questions may need to be added if they are determined pertinent in considering the methods of internal control employed.

E. Auditors=Use of Internal Control

Auditors are required by Generally Accepted Auditing Standards, Government Auditing Standards, and, where applicable, OMB Circular A-133 to evaluate an entity's internal control structure as part of their audits of financial statements and of compliance with federal grant requirements. A well-designed and efficiently run internal control system will enable the auditor to perform his/her duties more quickly and less intrusively than one that is poorly designed or poorly executed. Therefore, a sound system of internal control is critical to the efficient performance of a successful audit. See Chapter 9 for applicable audit requirements.

F. ADHS Requirements

The Department requires its contractors to have an internal control system that addresses at the least the following objectives:

1. Separate accounting for contract funds received and related expenditures or a consistently applied cost allocation system, which accurately documents the costs of, contracted programs or units of service. See Chapter 5, Cost Allocation.
2. Segregation of and accumulation of budget item expenditures to give a ready reference for compiling the expenditure reports.
3. Expenditures of contract funds in accordance with contract requirements. This objective typically includes the following:
 - a. Expenditure of funds within the contract period;
 - b. Expenditure within the proper account classification;
 - c. Expenditure and/or allocation of direct and indirect costs that are directly related to or properly allocable to the contracted services.
4. Adequate documentation for all expenditures.
5. Adequate documentation of the occurrence of services billed to the Department under contract.

CHAPTER 4

Accounting System, Records, and Procedures

A. Accounting System

1. A basic accounting system will normally keep track of five major categories of accounts:
 - a. Assets (Cash, Accounts Receivable, Inventory, Prepaid Expenses, Fixed Assets, etc.)
 - b. Liabilities (Accounts Payable, Accrued Liabilities, Long-term Debt, etc.)
 - c. Revenue/Support (Sales, Receipts, Contributions, Contract Earnings, etc.)
 - d. Expenses (Salaries, Supplies, Operating Expenses, Taxes, etc.)
 - e. Fund Balance.
2. In maintaining the accounts, each organization must establish the fundamental basis of financial reporting/recording practices:
 - a. Accrual Basis vs. Cash Basis of Accounting;
 - b. Double Entry vs. Single Entry.
3. For governmental entities, the fundamental basis for maintaining the accounting system may be dictated by statute or regulations. For non-profit entities, the basis of accounting may be established by the Board of Directors. It is management's responsibility to maintain the accounting system in accordance with the official regulations of the governing board.
4. Both large and small organizations will normally incorporate some form of a chart of accounts. A chart of accounts may be defined as a system for identifying and classifying various accounts titles and accounting transactions by:
 - a. The type of account or nature of transaction (what is it?),
 - b. The function of the accounting transaction (for what purpose did the transaction take place?), and,
 - c. May incorporate a coding scheme composed of numerals and /or letters of the alphabet.
5. While a basic chart of accounts is usually essential to all organizations, certain very small organizations may not use or need a coding scheme to go with the chart.

B. Accounting Records - The following types of records represent the minimum requirements for maintaining adequate financial accounting documentation for an ADHS-funded program. Additional subsidiary records may be desired and/or necessary to present a more complete accounting of the contractor's financial transactions.

1. Cash Disbursements Records
 - a. Expenditures may be recorded on any standard accounting form that has sufficient number of columns to allow separate recording of each budget classification. The data to be recorded must include:
 - (1) Net amount of check
 - (2) Purpose/description

- (3) Check number
- (4) Date
- (5) Payee
- (6) Amount expended by each transaction in each budget classification

Note: A budget classification may have multi components; e.g., Personal Services - Base Salary, Overtime, etc. (See chapter 7, Part D.)

- b. Expenditures must be summarized monthly and an accumulative (year-to-date) total maintained for each budget account classification.
- c. Where applicable, unpaid encumbrances shall be included in the ADHS expenditures and must be clearly identified in the records and on the ADHS Contractor's Expenditure Report. (EXHIBIT 2)
- d. Supporting documentation must include:
 - (1) Personal Services - Employee attendance records must be maintained for all employees. The records should cover a pay period and must be certified by signature of the employee's immediate supervisor. Where an employee's time is allocated to more than one fund, program, or service unit, time distribution records must also be maintained to support the payroll distribution. (See EXHIBIT 3 for an example of a Labor Activity Report).
 - (a) Inasmuch as personnel costs are generally the most significant costs associated with most contracts, the ADHS requires that all contractors, regardless of whether contracts are state or federally funded, comply with the federal guidelines for charging personnel costs. **Each contractor must carefully review and ensure that contractor submitted charges to ADHS contracts for salaries and wages comply with the appropriate federal circular as specified below:**
 - (b) Government Entities: Federal Circular A-87, Attachment B, Section 11 (Compensation for Personal Services);
 - (c) Non-Profit Entities: Federal Circular A-122, Attachment B, Section 7 (Compensation for Personal Services), with emphasis placed on sub-section M, Support of Salary and Wages.
 - (d) Compliance with these guidelines will ensure that personnel costs charged to contract programs are fair and equitable.
 - (2) Professional and Outside Services - A vendor/contractor invoice denoting date, vendor, service provided, rate, and total charges must support each charge for professional services. This applies to all services whether provided under contract or other types of arrangements not under contract.
 - (3) Travel Claims - Employees requesting reimbursements for travel must submit a detailed mileage and subsistence claim to include purpose, dates, time of departure and arrival, travel site, trip mileage, total mileage, total subsistence, and total charges. The travel claim must be certified by a signature of the employee and approved by signature of the employee's immediate supervisor. (See EXHIBIT 4 for an example).

Note: Allowable rates for lodging, meals and mileage not to exceed those established by the state, except county governments may utilize county rates. Information on allowable state rates may be obtained from the ADHS Contract Program Coordinator or the ADHS Accounts Payable Office Manager at phone number (602) 542-1055.

- (4) Supplies, Materials, etc. - All purchases must be supported by vendor invoices; receiving records and signed and dated by an authorized receiver.

Note: A separate receiving record is not necessary -- a signed and dated invoice or delivery ticket will suffice.

- (5) Leased or Rented Space - Lease or rental agreements must support periodic charges for leases or rentals. The agreement should include description of item, purpose or use, period of lease, time of payment, and rate.

Note: (a) Mortgage payments on buildings and related interest are expressly not allowed as charges to subvention contract funds. (b) See Section C 1. Accounting Conformance Procedures - Space, for allowable charges.

(6) Capital Equipment

- (a) Definition - Capital equipment is all moveable, non-expendable personal property having a useful life or more than one year and an acquisition cost of five thousand dollars (\$5,000) or more per unit.

Note: This definition is important in knowing when purchases may be charged directly to a contract (below \$5,000) or when capitalization rules apply (\$5,000 and above).

- (b) A formal inventory listing or subsidiary record of all equipment owned by the contractor must be maintained in an organized manner as an official part of the official accounting system. The capital equipment listing will include the following information:

- (i) Tag or Identification Number,
- (ii) Description,
- (iii) Purchase cost or fair market value on date of donation,
- (iv) Purchase or donation date,
- (v) Location, and
- (vi) Disposal date.

- (c) A contractor will utilize this information to calculate allowable depreciation charges for allocation to ADHS contracts for equipment owned by the contractor and utilized in providing contract services. (See Depreciation Expense - Facilities and Equipment - Section C. 2 in this Chapter).

Note: If applicable, special consideration must be given to equipment previously purchased as a direct charge to an ADHS contract and subsequently reported to ADHS. Such equipment is considered owned by the ADHS and should not be used by the contractor in calculating the allowable depreciation expense to charge to a current ADHS contract.

- (d) Fee For Service/Fixed Price Contracts - When establishing the cost per unit of service of an ADHS contract, it is appropriate to allocate as a portion of the cost, a fair amount of depreciation/use allowance expense for the contractor owned equipment to be utilized in providing the contract services. Any equipment purchased by the contractor would belong to the contractor and would not be reported to the ADHS.

- (e) Cost Reimbursement Contracts

- (i) The ADHS will allow a fair amount of depreciation/use allowance expense for the contractor owned equipment utilized in providing contract services.
- (ii) Equipment purchases may be charged directly to an ADHS cost reimbursement contract only if the contract includes a specific line item budget for "Capital Outlay," and identifies the equipment to be purchased. The contract's Capital Outlay budget also establishes the maximum amount that can be expended for equipment.
- (iii) It is the responsibility of contractors to report these equipment purchases to the ADHS Inventory Control Office (ICO). All capital equipment purchases must be reported to the ADHS on form titled "ADHS Capital Equipment Expenditure Report, Subvention Contracts, F-5." (See EXHIBIT 5). Copies of supporting vendor invoices of equipment purchased must be attached to the F-5 Form and mailed to:

Arizona Department of Health Services
B &FS - Inventory Control Office/ Warehouse
2500 E. Van Buren Street
Phoenix, Arizona 85008
- (iv) The ADHS Inventory Control Office will assign and affix the ADHS inventory numbers.
- (v) These equipment purchases will be considered owned by the ADHS, thus will not be used by the contractor for purposes of calculating allocable depreciation expense chargeable to ADHS contracts.
- (vi) When an ADHS Program loans ADHS equipment to a contractor, the equipment shall be maintained in operable condition by the contractor during the loan period. The contractor shall bear all costs associated with the repair, transport or disposition of the loaned equipment.
- (vii) Contractor shall immediately report stolen ADHS-owned equipment to local law enforcement officials and forward a copy of the police report to the ADHS Inventory Control Office. Contractor must report the theft to his insurance carrier for replacement or reimbursement to ADHS. All replacement equipment must be reported to the ADHS/ICO and will remain the property of ADHS.
- (viii) Titles issued for vehicles, trailers, mobile homes, etc., purchased with ADHS funds shall be made out to the Arizona Department of Health Services and the original title shall be forwarded to the ADHS/ICO.
- (ix) When ADHS owned equipment is no longer usable or needed by a contractor, or upon contract termination, the contractor shall notify the appropriate ADHS Program Manager who shall notify the ADHS/ICO to make arrangements with the contractor to pick up or otherwise dispose of the equipment in accordance with State Surplus Property guidelines.
- (x) Contractors shall perform a physical inventory of its fixed assets annually to ensure that adequate care is being used in the control and accountability of assets. Due to varying circumstances, the process adopted to coordinate the physical inventory will be dependent on the contractor's own assessment of its organizational needs. The contractor's fixed asset listing should be used as the basis for the annual inventory. The inventory should not be assigned to individuals who are responsible for the stewardship of the assets. All additions, deletions, or changes determined as a result of the physical inventory must be posted to the contractor's fixed asset listing.

2. Cash Receipts Records

- a. All monies received must be recorded in such a manner to separate sources of funds and to include:
 - (1) Net amount received,
 - (2) Date received,
 - (3) Source of funds, and
 - (4) Individual account for each source; i.e., ADHS programs, patient fees, donations, etc.
 - b. When practicable, the cashier should be a person who does not have access to the ledgers. Upon receipt of cash, the cashier should prepare a pre-numbered receipt that includes:
 - (1) Date;
 - (2) Name of payor;
 - (3) Amount received;
 - (4) Type of cash received; i.e., currency, check, money order; and
 - (5) Signature of cashier.
 - c. Cash received should be deposited intact daily, unless the dollar amount is insignificant (i.e., under \$500) with all deposits made at least weekly. Proper security must be provided for the receipts held; deposit slips must be made in duplicate, stamped by the bank, and a copy retained in the contractor's records.
3. Accounts Receivable Records - to ensure a current accounting of patient fee receivables, a separate accounts receivable subsidiary record should be maintained on each patient to include:
- a. Name, address, and identification number of patient;
 - b. Date service was provided and amount of charge;
 - c. Date and amount of each payment; and
 - d. Balance due.
4. Payroll Records
- a. Individual personnel records shall be maintained on each employee to include:
 - (1) Personal data - date of hire, job title, and pay rate.
 - (2) Authorizations for deductions.
 - b. A summary of individual records shall be maintained for each pay period to include:
 - (1) Employee's name,
 - (2) Gross earnings,
 - (3) Deductions (employee's contributions), and
 - (4) Net earnings.

- (5) Check numbers.
- 3. Individual leave records shall be maintained to include:
 - (1) Vacation time accrued.
 - (2) Sick leave accrued.
 - (3) Vacation time taken.
 - (4) Sick leave time taken.
 - (5) Compensatory time earned.
 - (6) Compensatory time taken.
- 3. Accounting Conformance Procedures: In conformance with Generally Accepted Accounting Principles (GAAP), the following procedures are considered especially applicable to ADHS contracts:
 - 1. Space - costs related to space needed for the delivery of contract services are allowable expenses. Space costs include the expense of a facility and other expenses directly related to the operation of the facility. Space costs, however, do not include the purchase or major modification of land or facilities.
 - 1. Facilities - the cost of a facility, or an appropriate proportion thereof, needed for the delivery of contract services, may be charged to an ADHS contract through one of three methods:
 - (1) Rent
 - (2) Depreciation
 - (3) Use Allowance
 - b. The prospective Contractor is reminded that the same method of expensing space costs should apply on any one class of asset. Whichever method is employed, the budgeted costs must be calculated in accordance with the following guidelines:
 - (1) Rent
 - (a) Rent is a charge to current operations for the use of a building, owned by an entity or individual other than the contractor agency and which is not being allowed a depreciation or use charge.
 - (b) Rent is allowable, contingent upon the reasonableness, for the type and size of the building in relation to such factors as current fair market value or geographical area. The reasonableness of the rental cost should be able to meet the test of an opinion of a professional realtor or appraiser.
 - (c) In all cases, there must be a written lease between the contractor agency and the owner, which clearly specifies all services included under the term of the lease. It should be noted that rental costs must be properly allocated in proportion to the time and space used by the contractor agency in the delivery of contract services. Any portion of the property acquired at any time with federal or state funds will not be eligible for rental expenses.
 - (d) When rental purchase agreements exist or when buildings are rented from an individual, corporate entity or holding company, directly or indirectly related to or connected with the contractor agency, the reasonableness or rental costs must be established and documented by an independent professional appraiser and be above any appearance of a conflict of interest. In these cases, rent may not exceed

the amount that would be allowed if depreciation were employed.

(2) Depreciation - (See Depreciation Expense - Facilities and Equipment - Section C. 2).

(3) Use Allowance

- (a) Use charges are a means of charging current operations for a facility expense, which cannot be charged as either rent or depreciation. Use charges, therefore, are considered as compensation in lieu of depreciation. However; the contractor agencies must fully demonstrate that they will incur space costs in the provision of contract services, which are not otherwise included in the budget as either a direct, or an indirect cost. Allowability will be determined by proper documentation to demonstrate the additional current operating costs.
- (b) For buildings, use allowance will be calculated by applying the maximum annual rate of 2 percent against estimated or actual acquisition costs. Use allowance, as with rental and depreciation charges, should be properly allocated in proportion to the time and space used by the contractor agency in the delivery of contract services.
- (c) The operation of any facility requires services to maintain satisfactory conditions. Those operational costs, which are not otherwise included as an indirect or rental charge, are allowable as direct charges. These operational costs include the following:
 - (i) Fuel
 - (ii) Electricity
 - (iii) Water
 - (iv) Sewer
 - (v) Sanitation
 - (vi) Property taxes
 - (vii) Maintenance (sub-contract services only)
- (d) Contractor agencies should state the amount of anticipated expense for each of the above service and utility items and record the basis for each entry. The basis should be the Provider agency's prior experience or a best estimate properly calculated in proportion to the contract services to be rendered.
- (e) Certain Contractor agencies are eligible for rebates and refunds on service and utility costs. Such rebates and refunds are to be taken into consideration in the computation of these expenses. Only the net cost to the provider agency should be reflected in the respective budget line items.
- (f) Insurance - Buildings and Contents

The distinction between ownership and the renting tenant is important in determining the nature and degree of insurance to be carried by the contractor agency. It should be noted that insurance coverage is a specific requirement of the contract. The prime consideration is one of sound business practice. The degree of coverage is to be adequate, but not excessive, to protect the assets and to limit the potential liabilities that may be incurred by the contractor agency. This does not include personal liability insurance such as malpractice coverage. The coverage is to be acquired at a reasonable and competitive premium rate. Insurance to cover all building(s) and contents is to be placed in this line item.

- (g) Certain contract services will include residential care to clients as an integral but subordinate part of another social service. The cost of room for persons receiving residential care is an allowable budgeted expense. Room is considered as the provision of a shelter occupied for residential use. Residential costs include such expenses as rent, utilities, equipment, telephone, insurance and related household expenses. While certain Service Specifications may limit the time an individual may stay, a site may be leased for longer intervals to provide a residence for a series of individuals. Consult program-specific instructions to determine whether any such limitations apply to the services proposed for contract.
- (h) Residential costs for each residential site should be recorded separately. Each site's respective budgeted expense should be shown as illustrated below.

Example:

<u>Item</u>	<u>Basis</u>	<u>Service Cost</u>
<u>Group Home #1</u>		
Rent	\$500 per mo. x 12 mo.	\$ 6,000
Utilities	\$100 per mo. x 12 mo.	<u>1,200</u>
		\$ 7,200
<u>Apartment #1</u>		
Rent	\$300 per mo. x 12 mo.	\$ 3,600
Telephone	\$ 40 per mo. x 12 mo.	<u>480</u>
		\$ 4,080

2. Depreciation Expense - Facilities and Equipment

- Depreciation is a charge to current operations, which distributes the cost of a building and/or equipment over its useful life. Depreciation will only be considered as a budgeted expense if the facility/equipment has not been fully depreciated. Depreciation is allowable on facilities, equipment and capital improvements based upon the actual acquisition cost.
- The actual acquisition cost must be supported by adequate records and financial statements. In cases where the actual acquisition cost is unknown, a reasonable estimate will be considered. Federal and state funds used in the acquisition of either a facility, equipment or capital item are not to be considered as part of the provider agency's share of the acquisition cost. Land also will not be considered as part of the acquisition cost allowable for depreciation.
- For the majority of contractor agencies, the straight-line method of depreciation is the most applicable and easiest method. This method is calculated by determining original acquisition cost, subtracting any anticipated salvage value, and dividing the net result by the number of years of useful life. The resultant amount is the allowed annual depreciation. There will be instances where another method, which meets professional accounting standards, may prove more beneficial to a contractor agency. The ADHS encourages the straight-line method, but will allow, on an exception basis, other acceptable methods. Whichever method is used, the depreciation calculation requires the actual or estimated original acquisition cost, a determination of useful life, and an estimate of salvage value, if applicable.
- The useful life of a building, capital improvement, or equipment will be based upon the number of years of expected satisfactory operation prior to its obsolescence. The governing principle to be followed in the approval of life expectancy will be reasonableness. Contractor agencies are encouraged to utilize the following state guidelines in the establishment of useful life expectancies.

Useful Life in Years

Buildings	40
Improvements Other Than Buildings	15
Heavy Trucks	7
Light General Purpose Trucks	5
Automobiles	5
EDP Equipment	5
Office Equipment	5
Office Furniture	5

3. Accounts Receivable

- a. Patient fees are usually calculated on a sliding scale, ability to pay basis.
- b. Patients with outstanding balances should be billed monthly. If a patient is delinquent in payment after two or three billings, follow-up collection procedures should be instituted; i.e., letters or telephone contact. Copies of such letters and documentation of telephone calls should be on file.

4. Petty Cash Fund

- a. The petty cash fund is maintained for the purpose of making disbursements for various small purchases of supplies, postage, etc. The contractor should establish a limit to restrict the amount of a disbursement from the fund. The fund shall be established by issuance of a check to the custodian of the fund, who shall bear full responsibility for its administration. All disbursements must be supported by a pre-numbered cash voucher (typewritten or in ink), that must include the date, amount, type of purchase, budget category to be charged, signature of cash recipient, and signed approval of the custodian.
- b. Documents, such as cash register receipts, supporting each purchase must be attached to the pre-numbered cash voucher. The fund must be replenished as necessary and always at the end of each month (brought up to the original amount by issuance of a check to the custodian) and the accumulated cash vouchers posted to the applicable budget item by the end of each month.

5. Pension/Retirement Plan Costs

- a. Only the costs of bona-fide pension/retirement plans that are established and maintained in accordance with the Governmental Accounting Standards Board (GASB) and Generally Accepted Accounting Standards (GAAS) are allocable to ADHS contracts. Such costs must be distributed equitably to all contractor programs. The method of allocation and supporting documentation must be maintained.
- b. This is a complex area where assistance from professionals such as a CPA firm should be obtained to ensure consistent compliance with State or federal regulations.

6. Purchasing - Purchasing procedures and controls are necessary in a sound accounting system.

- a. Purchasing involves three major parts: requisitioning, ordering and receiving. The responsibility for approval of each purchase should be assigned to an authorized person. No expenditure transactions will be approved by the auditors without proper documentation of each purchase.
- b. Receiving should always be separated from the procurement function. Receiving records must indicate description of items received, quantity received, date received, and signature of authorized receiver.
- c. Orders should not be placed without written approval. Such approval can provide for the delegation of responsibility for purchases of minor amounts.

7. Inventories - Supply inventories must be subject to adequate controls to minimize loss, ensure that issuances of items are properly accounted for, and to prevent shortages of needed items. The responsibility of storeroom control should be assigned to one person whose duties would include:
 - a. Receiving purchases.
 - b. Issuing supplies.
 - c. Maintaining prescription drugs in a locked cabinet and issuing these items only on direction of a licensed authorized person, in accordance with federal, state and local laws and regulations.
 - d. Periodic physical inventories of storeroom and medical supplies; reconciling of physical counts to the beginning inventory, plus purchases received, less items issued. The final year-end inventory should be taken by a person other than the employee assigned to storeroom control.
8. Complete Records - Any contractor using his own electronic data processing equipment for the generation of financial or program data reports must maintain a detailed program and procedures manual as well as user logs. Such information should include complete system verification methods and internal controls to safeguard the integrity of said systems.
9. Retention of Records - All financial and performance records, including source documents, ledgers, personnel and payroll records, canceled checks, and all other related documents must be retained by the contractor for:
 - a. A period of five years after the last day of the program year or longer, if specified by contract.
 - b. If any litigation, claim, or audit is started before the expiration of the five-year period, the records shall be retained until all litigation, claims, or audit findings involving the records have been resolved.
 - c. Capital asset documentation, such as vendor invoices, should be retained for the life of the asset.

CHAPTER 5

Cost Allocation

A. General

1. In all organizations, there is a need to understand and utilize cost allocation. The most basic need is to allocate costs to program/service units and/or fund sources that, because of internal and/or external forces, require an accounting for the use of the funds or program/service units and/or fund source.
2. Cost Allocations must follow certain basic principles and are applicable to either manual or automated financial systems. The basic principles of cost allocation are as follows:
 - a. A given cost is allowable to an ADHS program/service unit to the extent that it directly benefits the ADHS program/service unit.
 - b. The cost must be necessary and reasonable for proper and efficient administration of a particular ADHS program/service unit.
 - c. Cost must conform to any limitations or exclusions established by the applicable federal circulars referenced in Chapter 2.
 - d. Cost must be consistent with the policies, procedures and regulations that apply uniformly to both ADHS assisted and other programs/activities of the contractor.
 - e. ADHS programs must be treated consistently through application of the AICPA generally accepted fund accounting principles.
 - f. Any cost allocable to a particular contractor program may not be shifted to ADHS programs to overcome fund deficiencies, avoid restrictions imposed by law, or for other reasons.
 - g. Cost to be allocable must not include any other cost of State, federal or locally financed programs for which reimbursement is sought in the current period or obtained in any prior periods from other sources.
 - h. Cost must be net of all applicable credits including fees earned (unless allowed under Contract Special Provisions), sales of publications, equipment, scrap, purchase discounts, rebates or allowance, etc.
 - i. Costs that are allocated must have a rational basis that when applied will result in a fair and equitable allocation of costs to benefitting programs/service units. A schedule of acceptable basis of allocating various costs is provided as Exhibits 6 and 7 for reference purposes.
 - j. Cost allocations must address both direct and indirect costs.

2. Composition of Costs

1. The total cost of a program is comprised of the allowable direct cost incident to its performance, plus its allocable portion of allowable indirect costs less applicable credits. There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the program or other cost center. It is essential therefore that each item of cost be treated consistently either as a direct or an indirect cost. Specific guides for determining direct and indirect costs allocable under ADHS programs are provided in EXHIBITS 6 and 7.
2. Direct Costs
 - a. Direct costs are those that can be identified specifically with a particular direct cost center. These costs may be

charged directly to the ADHS contracts, Inter-Governmental Agreements and Inter-Service Agreements or other programs.

b. Typical direct costs chargeable to ADHS programs/service units are:

- (1) Compensation of employees for the time and effort devoted specifically to the execution of the programs or services. (For allowable charges to ADHS contracts see Chapter 4 B.1.d (1) - Personal Services - for detail documentation requirements and compliance with federal regulations).
- (2) Cost of materials acquired, consumed or expended specifically for the purpose of a given program or service.
- (3) Other items of expense incurred specifically to carry out the program or service under agreement with ADHS.

3. Indirect Costs

1. Indirect costs are those incurred for a common or joint purpose benefitting more than one program or direct cost center, and not readily assignable to the programs specifically benefitted without effort and cost disproportionate to the results achieved. The determination of a cost as either direct or indirect will depend on the organization's unique circumstances and the applicable federal circular. Examples of the type of costs which are typically considered as indirect include the following:

- (1) Salaries and wages of administrative personnel whose effort benefits more than one cost objective, such as the following:
 - (1) Director
 - (2) Executive Director or similar positions
 - (3) Controller, Accountants, Bookkeepers
 - (4) Business Managers
 - (5) Secretarial positions to above personnel
- (2) Associated employee-related expenses of above personnel
- (3) Operations and maintenance costs that support multiple cost objectives;
 - (1) Rent
 - (2) Utilities
 - (3) Janitorial services
 - (4) General repair and maintenance
- (4) General office supplies, postage, telephone, copy expense
- (5) General legal and audit costs
- (6) Building and equipment use allowance or depreciation
- (7) Administrative travel

- b. In theory, all costs could be charged directly. This approach, however, is usually impractical. Certain costs are usually, therefore, grouped into a common pool(s) and distributed to benefitting activities by a cost allocation process. The end product of this allocation process is an indirect cost rate(s), which is applied to individual projects/programs supported by contracts or other agreements with the ADHS, to determine the amount of indirect costs applicable to each project/program.
 - (1) The indirect cost rate is a ratio, expressed as a percentage, of the indirect costs to a direct cost base. The direct cost base is usually either total direct costs (exclusive of capital expenditures and other distorting items), or direct salaries and wages. The base selected must produce an equitable distribution of indirect costs. Other bases may be used, but must produce an equitable distribution of indirect costs.
 - (2) Indirect Cost Rates are established by preparation of an Indirect Cost Plan, which identifies how the Indirect Cost Rate(s) is computed.

4. Unallowable Costs

- a. Federal regulations stipulate that certain costs are unallowable either partially or in total. Please refer to the applicable federal circular. Examples of costs that are often unallowable, include, but are not limited to, the following:
 - (1) General public relations advertising
 - (2) Bad debts
 - (3) Contributions and donations
 - (4) Entertainment costs
 - (5) Fines and penalties
 - (6) Interest and other financing costs. Exceptions may apply.
 - (7) Losses on other contracts or Inter-Governmental Agreements or Inter-Service Agreements
 - (8) Fund raising
 - (9) Costs of independent research and development
 - (10) Investment counsel or management
 - (11) Organization costs
 - (12) Patent and copyright costs where title is not conveyed to the government
 - (13) Capital expenditures except as provided for in the grant/contract (Building and equipment use allowance or depreciation is allowable)
 - (14) General cost of government (county supervisors, legislative expense, etc.)
 - (15) Contingencies

3. Indirect Cost Plan Guidelines:

- 1. Cognizant Agency Status:

- a. Under Federal regulations, when the ADHS is the Agrantee@or direct recipient of federal grant/contract funds, and the ADHS subgrants or contracts with a sub-contractor to carry out or assist in carrying out the program/services for which the funds were awarded, the Agrantee@or ADHS, may become the Acognizant agency@of the sub-contractor or Alower tier@organization.
 - b. Generally, if ADHS is the direct Agrantee@that provides the majority of federal funding to a Asub-recipient@ organization, the ADHS becomes the Acognizant agency@of the Asub-recipient@organization. In such situations, ADHS is responsible for ensuring that the federal funds expended by the lower tier organization are properly spent and accounted for. This responsibility extends to a determination by ADHS that the indirect cost rates of Asub-recipients@are determined in accordance with the federal cost principles applicable to the Asub-recipient@ organization.
2. It is an ADHS policy and requirement that all sub-recipient(s)/sub-contractor(s) prepare Indirect Cost Plans annually and in conformance with the following federal regulations/guidelines:
 1. Non-Profit Organizations:
 - (1) Office of Management and Budget Circular A-122, ACost Principles for Non-Profit Organizations@
 - (2) OASC-5 A GUIDE FOR NON-PROFIT INSTITUTIONS - Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the Department of Health and Human Services.
 2. Governmental Agencies:
 - (1) Office of Management and Budget Circular A-87, “Cost Principles For State and Local Governments.”
 - (2) OASC-10 A GUIDE FOR STATE AND LOCAL GOVERNMENT AGENCIES - Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government
 3. Commercial or For Profit Organizations:
 - (1) Code of Federal Regulations: 48 CFR Chapter 1(10-1-86 Edition) Part 31 - Contract Cost Principles, Subpart 31.2 - Contracts with Commercial Organizations
 - d. All of these publications are available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.
 3. Composition of Indirect Cost Plans - the annual Indirect Cost Plan will consist of the following documentation:
 - a. The compilation of the Indirect Cost Rate, supported by work papers and schedules. These work papers and schedules constitute the main component of the Indirect Cost Plan.
 - b. A certification by an authorized official that the Indirect Cost Plan has been prepared in accordance with applicable policies and procedures.
 - c. A copy of financial statements prepared by either certified public accountants, licensed public accountants or State or local government auditors, or a copy of the official budget of that organization if the budget reports the actual expenditures for the year on which the plan is based. If these are not available, plans should be supported by such other official financial documents generated by the organization, which can be used to substantiate the authenticity of the amounts used. Any differences between line items on the indirect cost plan and line items shown on the supporting documentation must be reconciled. The initial plan should include information, which provides a clear understanding of the accounting classification system employed, including a narrative description of the functions treated as indirect costs. Information on the accounting classification

system and on the indirect cost narratives need only be updated in years other than the initial year.

- d. A schedule of ADHS funded expenditures made during the fiscal year showing for each ADHS funded program:
 - (1) Direct salaries and wages,
 - (2) Other direct expenditures,
 - (3) Indirect expenditures, and
 - (4) Total expenditures.
 - e. A schedule of items of costs that are treated inconsistently, that is, (a) items which are charged as direct costs to some ADHS programs but not to all, the costs not charged direct being treated as an indirect cost and, (b) items which are treated as direct costs for ADHS programs but not for non-ADHS activities and projects, the costs not charged directly being treated as an indirect cost. The schedule must show the items treated inconsistently, the reasons for the inconsistency, the amounts treated as indirect costs, the amounts charged as direct costs to ADHS programs, the ADHS programs charged.
 - f. A chart showing the organizational structure of the agency during the period for which the plan applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency.
 - g. All the documentation identified in paragraphs 3.a-f above, must be organized and identified as the organization's Indirect Cost Plan and retained as part of the organization's official financial records.
4. Review, Approval of Indirect Cost Plans - Indirect Cost Plans will not be submitted to ADHS for approval.
- a. It is the ADHS policy that each sub-recipient/sub-contractor is responsible for preparing an Indirect Cost Plan in conformity with the appropriate federal regulations, as covered in paragraph 2 above. Each plan is to be reviewed for compliance as an integral part of each sub-recipient's/sub-contractor's annual A-133 certified audit. Any issues of non-compliance with federal guidelines would be included in the certified audit report.
 - b. All instances of questioned costs or procedural deficiencies related to Indirect Cost Plans, as identified in the certified audit reports, will be scheduled for investigation and resolution by the ADHS.
5. It is an ADHS policy that the federal Indirect Cost Plan guidelines covered in this section are to be applied to sub-contracts funded with state funds as well as federal funds. In other words, these guidelines are to be uniformly applied, regardless of funding source.
6. As formal Indirect Cost Plans may involve complex cost allocation procedures, contractors unfamiliar with federal guidelines are encouraged to have their CPA firm or financial consultant involved with the preparation of the Indirect Cost Plan.
- D. Example of an Indirect Cost Rate Computation
1. As an example of an Indirect Cost Plan/Proposal describing how an Indirect Cost Rate is computed, Appendix C from OASC-5, **AA Guide for Nonprofit Organizations**, is attached (see EXHIBIT 8).
 2. Appendix C describes the Simplified Allocation Method. Other allocation methods are also described in OASC-5 OR OASC-10 (governmental agencies) that should be reviewed before a final determination is made as to the most appropriate method to follow for any given organization.
- E. Development of Unit Cost - development of unit cost is in itself cost allocation, related to a service, function or product. The development of a cost structure can recognize and identify that service, function or product for which a unit cost is

desired. Then, the statistical data concerning the number of services, function or products, completed in a time frame compatible with the collection of costs, allows a direct relationship or unit cost to be developed. The unit rate shall include applicable direct and indirect costs.

F. Administrative Costs

1. Definition of Administrative Costs and Program Costs:

- a. The term, administrative costs, can have different meanings and cause confusion unless a specific definition is identified in relation to the intent of the term in any given situation. There are two general definitions that are in common usage:
 - (1) Administrative costs may be used in certain situations to describe the cost to administer a program with the following variations:
 - (a) In some cases, the intent is to describe a program's total cost which would include total direct program cost plus a fair share of the program's general organizational overhead cost.
 - (b) In some cases, the intent is to describe only a program's total direct cost.
 - (c) In some situations, the intent may be to include a fair share of the program's general organizational overhead cost, plus only a portion of the direct program costs that relates to administering the direct program, such as, direct program managers, support staff and associated operating expenses that are part of the direct program, but not actually involved in the provision of direct services.
 - (2) Administrative costs may also be used to describe an organization's general administrative overhead costs, also commonly referred to as indirect costs, as separate and distinct from an organization's direct program costs. This definition is in general use by the federal government and has also been adopted by the State of Arizona as explained in the next paragraph.
- b. The State of Arizona, Governor's Office of Strategic Planning and Budget, Budget Schedules and Instruction Manual - Operating Budget and Federal Funds for Fiscal Years 2000 and 2001, in order to conform with A.R.S. ' 35-115 relating to the reporting of administrative expenditures, adopted the following definition of administrative costs:

"The following definition shall be used by agencies in determining whether a cost is administrative or programmatic:

ADMINISTRATIVE COSTS: Administrative Costs are those costs (a) incurred for a common or joint purpose benefitting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

PROGRAM COSTS: Program Costs are those that can be identified specifically with a particular final cost objective.

A cost objective is defined as a function, organizational unit, contract, grant, or other activity for which cost data are needed and for which costs are incurred."

- c. The above State definition was adopted from the federal Office of Management and Budget Circular A-87, "Cost Principles For State and Local Governments, Attachment A, Sections E and F." The State definition of "Administrative Costs" is synonymous with the federal term, "Indirect Cost," while "Program Costs" is synonymous with the federal term, "Direct Cost."
- d. In applying the State definition of Administrative Costs, it is ADHS policy that those activities of ADHS

contractors that are identified as ~~A~~indirect~~@~~are administrative. Therefore, the administrative costs of a contractor are those costs identified as indirect costs. Likewise, those costs identified as direct costs are direct program costs.

- e. See Section B, Composition of Costs, above, for an explanation of direct and indirect costs. Also, an example of how to identify and account for indirect costs and direct costs is provided at EXHIBIT 8.
- f. There may be situations when a specific State statute, federal grant or other funding source may require a definition of administrative costs, that must be passed on to ADHS contractors, that differs from the above State definition. When this situation exists, the special definition will be identified in the ADHS contract and will prevail over the standard definition cited above.

2. Administrative Cap Limitation:

- a. For those contractors that establish a formal Indirect Cost Rate in accordance with paragraph C.3. of this Chapter, the amount of indirect cost charged to the contract shall not exceed the contract administrative cap limitation, when applicable. The administrative costs of sub-contractors, if any, must be taken into account when calculating the contract administrative cap limitation.
- b. If a contractor does not establish a formal Indirect Cost Rate, all charges to ADHS contracts must be recorded as indirect (administrative) or direct program costs in accordance with the guidelines established in paragraph B above. When indirect (administrative) costs are charged in this manner, the contractor must have a formal cost allocation procedure in place to assure that all types of indirect (administrative) costs are charged equitably to all contractor direct programs. The contractor must document that each direct program is charged a fair share of the indirect (administrative) costs. Administrative costs charged to ADHS contracts shall not exceed the contract administrative cap.

3. Reporting Administrative Costs:

- a. Total indirect (administrative) costs for each contract reporting period shall be summarized and reported to ADHS as administrative cost on the Contractors' Expenditure Report on the ~~A~~Other~~@~~line, and shall not exceed the contract administrative cap.
- b. If a contractor decides not to charge the organization's indirect (administrative) costs to the contract, ie., only direct program costs are charged to the contract, then the administrative cost would be reported as zero.

CHAPTER 6

Matching Guidelines

A. General

1. When required under terms of the contract, the contractor~~s~~ (or sub-contractor~~s~~) matching expenditures in support of a contracted program must be reported and records must be maintained in the same manner as ADHS-funded program expenditures. The matching portion must be accounted for separately from the contractor~~s~~ or sub-contractor~~s~~ other records and must be readily identifiable as actual expenditures in support of the program. Matching expenditures must be incurred in the same ratio to ADHS-funded expenditures as required by the contract (i.e, if an agency is required to support 50% of a program, the actual costs must be at least on a 50-50 basis by the end of the contract period. The contractor~~s~~ share shall equal or exceed the contract requirement).
2. In-kind matching is authorized in certain type of contracts. In-kind matching is described as a contribution consisting of services, materials, use of property or other items of significant value, which are useful for the purpose of the program. The validity of using a particular item as in-kind match may be determined by asking the question, "Would the item be purchased, were funds available for the item?"

The value of an in-kind contribution shall be based on the fair market value. The fair market value may be established by:

1. Independent appraisal by a qualified recognized authority.
2. Price lists for materials and equipment.
3. Comparison with rental value of similar properties, or
4. Comparison to prevailing wage rates or professional fees.

(Whichever method is used, proper supporting documentation must be on file and the match must be necessary for and must make a positive contribution to the enhancement of the program/service area being matched.)

B. Matching Share

The contractor~~s~~ matching share in support of ADHS-funded services shall consist of (1) cash expenditures and/or (2) in-kind contributions, unless otherwise restricted by the contract or by statute.

Note: Cash and/or in-kind contributions received by the contractor do not constitute match until they are actually expended in support of the ADHS-funded services.

C. Cash Match

Where the terms of the contract require the contractor to match ADHS funds with cash expenditures, any of the following expenditures will constitute an allowable match, provided they are the same kind of services required by the contract.

1. Expenditures of funds provided by local governments are allowable in full.
2. Expenditures of revenue from services to patients are allowable in full.
3. Expenditures of funds provided through donations or other local fund-raising activities are allowable in full.
4. Expenditures of federal funds received directly from federal government and funds from other State agencies obtained by the local agency are allowable unless the contract specifically disallows such expenditures.

5. Expenditure of ADHS contract funds are not allowable as match towards any other ADHS contract. Funds received from ADHS contracts shall retain their identity as State funds while they remain in the hands of the contractor. Internal transfer of funds, transfer of funds between agencies, or other financial transactions, which appear to destroy the identity of State funds, shall be disallowed by the Department auditors.

Note: When the local agency utilizes a piece of equipment or a facility as a part of the contractual service for which ADHS matching funds are sought, and that agency is expending other than ADHS funds either to purchase the equipment on a time payment or cash basis, or to pay the rent or make mortgage payments on the facility, the amount of funds so expended which are attributable to the use of the facility or equipment in the contractual service can be used to match ADHS funds. Such a match is allowable even though the equipment or facility involved becomes the sole property of the agency after its purchase price has been paid.

- D. Recording and Documentation of Cash Match - The contractor's matching share of cash expenditures shall be accounted for in the same manner as ADHS-funded expenditures (Refer to Chapter 4).

- E. In-kind Match - Where allowed, in-kind match represents the utilization of non-cash resources provided to the contractor by (1) other public agencies and institutions and (2) private organizations and individuals. Allowable in-kind contributions may consist of the use of donations of buildings, improvements, equipment, goods, and services directly used in support of the services specified in the ADHS contract. Donations shall be approved for materials and services as specified in the ADHS contract and shall have been received within the contract period.

- F. Recording of In-kind Contributions

1. In-kind contributions shall be accounted for in the same manner as ADHS-funded expenditures; i.e., (1) in-kind donations in support of ADHS-funded services shall be separately recorded and (2) budget account classifications shall be segregated and accumulated to the close of each month.

2. In-kind Contributions Register

- a. In-kind contributions may be recorded on any standard accounting form that has sufficient number of columns to allow separate recording of each budget classification. The data to be recorded shall include:

- (1) Value of contribution.
- (2) Identifying number of support document
- (3) Date contribution was received.
- (4) Donor.
- (5) Donated amount by each transaction in applicable budget classification.

- b. Supporting Documentation.

Refer to "Guidelines for Determining and Documenting In-kind Match," Section H.

- G. Documentation of In-Kind Contributions - in-Kind contributions shall be supported by complete documentation. A "Statement of In-kind Contributions" (EXHIBIT 9) and/or a "Volunteer's Record of Time Worked" (EXHIBIT 10) or comparable forms must be used to document each contribution of services or materials.

- H. Guidelines for Determining and Documenting In-Kind Match

1. Personal services and/or professional services.

- a. Description

- (1) Each hour of volunteered services may be counted as match if the service is an integral and necessary part of providing the services specified in the ADHS contract.
- (2) The volunteer shall possess the required qualifications in the skill or profession, which he is performing.
- (3) Services shall be valued at the established rate of the work being performed, not the rate applicable to the qualifications of the person doing the work, e.g., the services of a C.P.A. may be valued at \$60 per hour when the C.P.A. functions in a professional capacity but volunteered services for routine bookkeeping chores may be valued at \$10 per hour.
- (4) Time spent by members of a governing board shall not be counted as in-kind match when the time is spent on the development, conduct, and administration of the program and the board members are acting as members of the Board.
- (5) Services, except as stated in (4) above, performed by board members on a voluntary basis for work which otherwise would have to be paid for, may be counted as match.
- (6) Volunteer services of regular full-time employees of the contractor shall not be counted as match.
- (7) When services are provided by students, interns or externs, at no cost or a reduced cost, the difference between the amount paid and the actual value of the work being performed may be counted as in-kind match.

b. Documentation

- (1) Name of donor, type of service, date, quantity, and value of service.
- (2) Certification by signature of (1) donor and (2) contractor's agent.

2. Travel

a. Description

Travel and per diem incurred by board members and volunteers that provide a necessary service specifically related to the operations of the program may be counted as match. The allowable rates for travel and per diem shall not exceed those established by the State, except county governments may utilize county authorized rates.

b. Documentation

- (1) Name of donor, date, location of travel, mileage, subsistence amounts.
- (2) Certification by signature of (1) donor and (2) contractor's agent.

3. Occupancy

a. Description

- (1) The donated use of buildings and/or utilities, maintenance, security services, and minor repairs related to normal upkeep of the building may be counted as match.
- (2) The value of the donated space shall be the current fair rental value of the facility. The fair rental value shall be established by (1) independent appraisal or (2) comparison with rental value of similar properties. Either method used shall be adequately documented.

b. Documentation

- (1) Name of donor, description of item, date received, value, and basis of valuation.
- (2) Certification by signature of (1) donor and (2) contractor's agent.

4. Capital Equipment

a. Description

- (1) Donated items of capital equipment when used in the program may be counted as match.
- (2) Equipment may include (1) household and office furnishings and equipment, (2) medical, recreational, and special equipment and (3) vehicles.
- (3) The value of capital equipment shall be based on (1) depreciation, or (2) use allowance. The computation of depreciation shall be based on value at date of contractor's acquisition; i.e., donor's acquisition cost less prior depreciation or the current market price of similar equipment, whichever is less.

Where the depreciation method is followed, adequate property records must be maintained and any generally accepted method of computing depreciation may be used. Consistency of application of depreciation method is required between years.

When use allowance method is utilized, the value shall be determined by obtaining documented current fair rental value for a comparable item.

b. Documentation

- (1) Name of donor, description of item, date received, value, and basis of valuation.
- (2) Certification by signature of (1) donor and (2) contractor's agent.

5. Buildings and Improvements

a. Description

Buildings owned by the contractor, and donated buildings and improvements when used for the program may be counted as match unless otherwise restricted in the contract.

b. Value of Match

The value may be established by one of the following methods:

- (1) Depreciation of the building or improvements - adequate records shall be maintained and generally accepted method of valuation and depreciation used, or
- (2) A use allowance for the building and improvements - allowable match not to exceed the current fair rental value as determined by independent appraisal for the particular locale.

c. Documentation

- (1) Name of donor, description of item, date received, value and basis of valuation.
- (2) Certification by signature of (1) donor and (2) contractor's agent.

(3) Mortgage ownership papers.

6. Other Operating

a. Description

- (1) Donations of office, institutional, and household supplies and miscellaneous items relating to operations when used in the program may be counted as match.
- (2) The value assessed to the donations shall be based on (1) donors cost or (2) current market price, whichever is less at the time of receipt by the contractor.

b. Documentation

- (1) Name of donor, description of item, date received, value, and basis of valuation.
- (2) Certification by signature of (1) donor and (2) contractor's agent.

CHAPTER 7

Expenditure Reporting

A. Fixed Price Contracts

1. The appropriate part of the ADHS Contractor's Expenditure Report must be completed in its entirety including type of unit, rate per unit, number of units provided, and total funds earned. Without this, ADHS will not process payment.
2. Certain fixed price contracts may also require submitting actual expenditures by line item categories. This information is for program monitoring purposes, and is not taken into consideration by ADHS accounting when determining payments under fixed rate reimbursement contracts, unless contract provisions specifically addresses such as a requirement.

B. Cost Reimbursement Contracts - Cumulative Actual Expenditures

The ADHS Contractor's Expenditure Report when required by the contract provisions are to include:

1. Cumulative actual expenditures for each budget classification through the close of the reporting period.

Note: Emphasis is placed on ACTUAL.

2. Total unpaid encumbrances to be paid within 30 days or before the next report is due for each budget classification through the close of the reporting period.
3. The ADHS Contractor's Expenditure Report must clearly identify:
 - a. Original ADHS share (as per budget page of the contract).
 - b. Current revised budget (applies only if contract has been amended or funds have been transferred among budget classifications).
 - c. Cumulative ADHS actual expenditures, unpaid encumbrances, and totals through the current period.
 - d. Cumulative contractor's share of actual cash expenditures and in-kind contributions (if applicable) through the current period.

The reported expenditures submitted to the ADHS must reconcile with the contractor's financial records. Expenditures must not be reported in excess of actual amounts expended, plus unpaid encumbrances. So doing, would enable the contractor to receive larger periodic payments from the ADHS than would be proper.

Note: In the case of advancement contracts, projections should be increased to cover anticipated above-normal expenditures.

C. Matching Requirements

In matching contracts, the contractor shall match ADHS-funded expenditures in the ratio required by the contract (stated on the budget page of the contract); i.e., in a 50/50 match requirement, the contractor's share shall equal or exceed the ADHS share by the end of the contract period.

D. Guide for Determining Budget Classification of Expenditures

1. Personal Services (Salaries and Wages)

- a. Regular Employees
 - (1) Base Salary
 - (2) Overtime
- b. Members of Boards and Commissions
 - (1) Other
 - (2) Temporary Help

Note: Not to include payments for professional or technical consultants.

2. Employee Related Expenditures

- a. Insurance
 - (1) FICA Taxes
 - (2) Health and Accident
 - (3) Life, A.D.&D., and disability
 - (4) Unemployment Compensation
 - (5) Other Insurance

Note: Not to include payroll taxes withheld from employee's earnings

- b. Retirement

Note: Employer's share only, not to include employee's share.

- c. Other Employee Benefits

Note: Exclude payments for travel.

3. Professional and Outside Services

- a. Data Processing
- b. Financial
- c. Institutional Care
- d. Legal
- e. Medical and Hospital Services
- f. Other

4. Travel - In-State

- a. Public Transportation

- (1) Air Fare
 - (2) Automobile Rental
 - (3) Local Transportation (Taxicab, Buses, Trains, etc.)
 - (4) Other Public Transportation
 - c. Non-public Transportation
 - (1) Mileage (Allowable rates not to exceed those established by the State, except county governments may utilize county rates)
 - (2) Motor Pool Charges
 - (3) Other
 - c. Subsistence (Lodging and Meals) (Allowable rates not to exceed those established by the State, except county government may utilize county rates)

Note: Information on allowable State rates may be obtained from the ADHS Contract Program Coordinator or the ADHS Accounts Payable Office Manager at phone number (602) 542-1055.
 - d. Miscellaneous
5. Travel Out-of-State
- a. Public Transportation
 - (1) Air Fare
 - (2) Automobile Rental
 - (3) Local Transportation (Taxicabs, Buses, Trains, etc.)
 - (4) Other
 - b. Non-public Transportation
 - (1) Mileage
 - (2) Motor Pool Charges
 - (3) Other
 - c. Subsistence (Lodging and Meals) (Allowable rates not to exceed those established by the State, except county governments may utilize county rates)

Note: Information on allowable State rates may be obtained from the ADHS Contract Program Coordinator or the ADHS Accounts Payable Office Manager at phone number (602) 542-1055.
 - d. Miscellaneous
6. Other Operating Expenditures

- a. Advertising
 - b. Communication
 - c. Insurance
 - d. Food and Beverages: ADHS contract funds (all funding sources) can only be used to reimburse individuals for the cost of meals while in travel status on official contract related business via the contractor's travel claim process. The use of ADHS contract funds shall not be used for the purchase of food and beverage for contract related meetings or contractor sponsored conferences or events.
 - e. Lease/Rental
 - (1) Land and Buildings
 - (2) Data Processing
 - (3) Vehicle Operation and Maintenance
 - (4) Other Machinery and Equipment
 - f. Other
 - (1) Printing and Photography
 - (2) Repair and Maintenance
 - (a) Non-Contract
 - (b) Contract
 - (3) Operating Supplies
 - (4) Repair and Maintenance Supplies
 - (5) Utilities (and related expenditures)
 - (6) Miscellaneous
7. Capital Equipment
- a. Data Processing Equipment
 - b. Vehicles
 - c. Other Machinery and Equipment

CHAPTER 8

Performance Accounting

- A. The contractor shall maintain sufficient program performance records to fully document services being provided. These records shall contain statistical data relating to specific services as required by the contract and each unit of service must be clearly identifiable.
- B. The periodic program progress reports submitted to the ADHS, as listed in the Special Terms and Conditions of the contract, shall detail the quantity and type of services provided. Sufficient records shall be maintained to enable the auditors to verify the units of service as reported.
- C. Where the contractor receives ADHS funds for more than one contract or program (e.g., Mental Health, Alcohol, Drug Abuse), documented internal controls shall be established by the contractor to ensure that no occasion of service or expenditure of funds will be reported to the ADHS in fulfillment of more than one of these programs.

Note: Services which are reported but which cannot be supported by official documentation will be disallowed resulting in a possible refund situation.

CHAPTER 9

Audit Procedures

A. Audit Requirements of ADHS Contractors

1. Contracts Funded by Federal Awards:

- a. Those contractors who receive federal awards of \$300,000 or more in a year and are sub-recipients must comply with the audit guidelines established by Federal OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Compliance with Circular A-133 audit requirements also apply when an ADHS contract includes both federal and state funds and the federal portion of the funds is \$300,000 or more. The comprehensive audit requirements of Circular A-133 generally do not apply to contractors who are designated as vendors; however, vendors may be subject to program compliance audits if considered necessary by ADHS.
- b. Sub-recipient Status versus Vendor Status: Federal Circular A-133 provides the following definitions and characteristics of sub-recipients and vendors:
 - (1) Sub-recipient: means a non-federal entity that expends federal awards received from a pass-through entity (ADHS) to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A sub-recipient may also be a recipient of other federal awards directly from a federal awarding agency. Characteristics that should be taken into account in determining if an organization should be classified as a sub-recipient are when the organization:
 - (a) Determines who is eligible to receive federal financial assistance;
 - (b) Has its performance measured against whether the objectives of the federal program are met;
 - (c) Has responsibility for programmatic decision making;
 - (d) Has responsibility for adherence to applicable federal program compliance requirements; and
 - (e) Uses the federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.
 - (2) Vendor: means a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program. The payments received by an ADHS contractor for goods or services provided as a vendor would not be considered federal awards. Characteristics indicative of a payment for goods and services received by a vendor are when the organization:
 - (a) Provides the goods and services within normal business operations,
 - (b) Provides similar goods or services to many different purchasers,
 - (c) Operates in a competitive environment,
 - (d) Provides goods or services that are ancillary to the operation of the federal program, and
 - (e) Is not subject to compliance requirements of the federal program.
 - (3) Use of judgment in making determination. There may be unusual circumstances or exceptions to the listed characteristics. In making the determination of whether a sub-recipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of

the characteristics will be present and judgment should be used in determining whether an entity is a sub-recipient or vendor.

- c. It is particularly important that sub-recipient contractors required to have Circular A-133 audits, become familiar with Circular A-133, Sub-part C--Auditee requirements. Sub-part C covers the following topics: Auditee Responsibilities, Auditor Selection, Financial Statements, and Report Submission.
- d. ADHS auditors may perform program-specific audits on ADHS contractors who receive less than \$300,000 in federal funds/awards when considered necessary.

2. 100% State Funded Contracts with Non-Profit Corporations

- a. The guidelines of A.R.S. ' 35-181.03 – “Audit of nonprofit corporations receiving state monies,” are as follows:
 - A. *Each nonprofit corporation that receives in excess of one hundred thousand dollars in State assistance in any fiscal year shall file for each such fiscal year at the corporation's expense with the grantor agency either audited financial statements prepared in accordance with federal single audit regulations or financial statements prepared in accordance with generally accepted accounting principles audited by an independent certified public accountant.*
 - B. *Each nonprofit corporation receiving fifty thousand dollars to one hundred thousand dollars in State assistance in any fiscal year shall file biennially at the corporation's expense with the grantor agency either an audited annual financial statement for the most recently completed even-numbered year prepared in accordance with federal single audit regulations or a financial statement for the most recently completed even-numbered year prepared in accordance with generally accepted accounting principles by an independent certified public accountant.*
 - C. *Each nonprofit corporation receiving less than fifty thousand dollars in state assistance in any fiscal year shall comply with contract requirements concerning financial and compliance audits contained in contract agreements governing such programs.*
- b. The above guidelines are followed by ADHS. ADHS auditors may also perform program-specific audits if considered necessary.

3. 100% State Funded Contracts with Governmental Agencies:

- a. ADHS will accept the federal Circular A-133 audited financial statements of all governmental agencies.
- b. ADHS auditors may also perform program-specific audits of State funded contracts if considered necessary.

B. Audit Procedures

1. Contractors Submitting A-133 Type Audits for Departmental Review

- a. The Department, through the Office of Auditing, will review county Single Audits on an annual basis.
- b. The contractor will submit, within nine months after the expiration of the contract, copies of their completed single audit to ADHS Office of Auditing.
- c. The Office of Auditing will perform a detailed desk review to determine whether or not the audit and reports comply with the provisions of OMB Circular A-133.
- d. All instances of questioned costs or procedural deficiencies related to departmentally funded programs, as identified in the audit reports, will be scheduled for investigation and resolution.
- e. The Office of Auditing will coordinate all audit issues, as necessary, with the ADHS Program Administrator to

ensure that the Program Administrator concurs with the contractor resolution.

- f. After completion of the desk review, the contractor will be notified of those areas, if any, which will require follow-up and/or resolution (i.e., questioned costs, procedural inadequacies, report deficiencies, etc.).
- g. The Department, through the Office of Auditing, may, at its option, conduct a review of the auditor's working papers which support the single audit reports.
- h. ADHS may monitor the activities of sub-recipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- i. Unresolved issues relating to contract compliance will be coordinated with the ADHS Program Administrator and referred to the Director, ADHS for determination of the Departmental position, and, if appropriate, issuing an official claim against the contractor.
- j. If the contractor disputes the Department's claim, the Contract Claims provision of the contract should be followed.

2. Audits Conducted by ADHS of Contractors Not Subject To A-133 Requirements

a. Notification of Audit

The contractor is notified in writing two to four weeks in advance of the audit date. Copies of the notice are sent to the ADHS Program Administrator and the ADHS Accounting Office. Telephone verification of the audit date is made approximately one week prior to the audit. The contractor is responsible for notifying his subcontractors.

Note: If circumstances permit, the Program Administrator may schedule a contractor's site visit to coincide with the audit date.

b. Pre-Audit Conference with ADHS Personnel

- (1) The Program Administrator is contacted prior to the audit to discuss problem areas that may exist in a contracted program. Program progress reports are obtained at this time.
- (2) The Accounting Clerk responsible for the contracted program is contacted to discuss problem areas that may exist in the contractor's financial reporting. Copies of expenditure reports covering the period of the audit are obtained at this time.

c. Entrance Conference with Contractor

At the beginning of the audit fieldwork, an entrance conference with the audit staff and the contractor's designated representatives will be held. The purpose of this initial meeting is to outline the scope of the audit and set up tentative schedules of work to be performed.

d. Audit of the Contractor's Financial Records

- (1) An audit of the contractor's financial records is conducted to examine and verify financial transactions to determine the extent of the contractor's compliance with the contract requirements. In the event that the contractor subcontracts, the subcontractor's records may, if circumstances dictate, also be examined.
- (2) The following list of audit areas is not intended to be all-inclusive, but represents some of the things that the auditor may review when appropriate:
 - (a) Contractor's cost allocation plan.

- (b) Adequacy of the accounting system.
 - (c) ADHS funds separately accounted for.
 - (d) Verify the Contractor's Expenditure Reports to the Contractor's books.
- e. Audit of the Contractor's Performance Records
 - (1) An audit of the contractor's performance records is conducted to examine and verify units of service provided and reported as specifically authorized in the contract. This is not an evaluation of the quality of those services. Statistical sampling techniques may be utilized to determine the specific units of service to be reviewed. Subcontractor's performance records may also be examined. All patient records examined by ADHS will be treated with complete confidentiality.
 - (2) The following list of audit areas is not intended to be all-inclusive, but represents some of the things that the auditor may review when appropriate:
 - (a) Client's charts and/or files,
 - (b) Activity logs,
 - (c) Documentation in support of program progress reports,
 - (d) Sign in sheets, or
 - (e) Bed check logs.
- f. Upon completion of the audit, an exit conference will be held with the contractor's program director or designated representative and chief financial officer and ADHS audit staff to review the audit findings. Recommendations for corrective measures for adverse audit findings will be made by the auditor at this time. Contractor will be given seven working days to respond with corrective actions to the findings in the report. Contractor's responses will then become part of the official audit report. If the contractor does not respond within the seven days, the report will be issued with a note that the contractor was "non-responsive."
- Prior to issuing the final report, contractor's program director or designated representative and chief financial officer will meet with the ADHS Deputy Director and appropriate ADHS audit staff for a final exit conference to ensure agreement with the audit findings and the proposed corrective actions. The final exit with the ADHS Deputy Director is only required for audits containing material findings.
- g. Post Audit Conference with the ADHS Program Administrator: Prior to the writing of the audit report, the audit findings will be discussed with the ADHS Program Administrator.
- h. Audit Report
 - (1) The Office of Auditing distributes the audit report to the Program Administrator.
 - (2) The Program Administrator is responsible for forwarding a copy of the audit report to the contractor.
 - (3) The corrective measures implemented by the contractor will then be monitored by the ADHS Program staff during their subsequent site visits to the contractor.
 - (4) If the contractor is unable, or does not comply with the agreed-upon corrective measures, contractor shall meet with the Program Administrator in an attempt to resolve the problems of implementing the corrective measures.

(5) Audit Disputes/Appeals

- (a) If, during the normal audit findings resolution process, the Chief Auditor and the contractor, through the Program Administrator, cannot resolve the issues, the matter will be submitted to the Director, ADHS. Recourse to the ADHS Director may be requested by either the Chief Auditor or the contractor in writing to the ADHS Directors Office.
 - (b) The ADHS Directors review was established to review each disputed audit finding and recommendation, any responses, and any other supplemental documents and information, and issue a determination. The contractor will be notified in writing of the ADHS Directors final determination and or their right to appeal the Directors determination.
- (6) If the contractor then has any unresolved audit exceptions, the Contract Claims provision of the contract should be followed.
- (7) If not appealed, the closure of the audit should be accomplished within 90 working days, from the date of the audit report.

C. Contract Claims and Controversies

All contract claims and controversies under ADHS contracts shall be resolved according to A.R.S. Title 41, Chapter 23, Article 9, and A.A.C. R2-7-901 through R2-7-937.

EXHIBITS

INTERNAL CONTROL QUESTIONNAIRE

NOTE: No answers may indicate an internal control weakness.

		<u>Yes</u>	<u>No</u>
1.	<u>General</u>		
a.	Are Accounting records updated, reconciled, and balanced monthly?	_____	_____
b.	Is a chart of accounts used?	_____	_____
c.	Does the Director use a budget system for monitoring revenue and expenses?	_____	_____
d.	Are cash projections made?	_____	_____
e.	Are monthly or quarterly financial reports available to the contractor's Board?	_____	_____
f.	Does the Board take a direct and active interest in the financial affairs and reports which are available?	_____	_____
g.	Is the Director satisfied that all employees are honest?	_____	_____
h.	Are accounting personnel required to take annual vacations?	_____	_____
i.	Are there written policies and procedures governing the accounting functions?	_____	_____
2.	<u>Cash Receipts</u>		
a.	Does the Bookkeeper open the mail?	_____	_____
b.	Does the Secretary list mail receipts before turning them over to the bookkeeper? _____	_____	_____
c.	Is the listing subsequently traced to the cash receipts journal?	_____	_____
d.	Are over-the-counter receipts controlled by prenumbered counter receipts, etc.?	_____	_____
e.	Are receipts deposited intact daily?	_____	_____
f.	Are employees who handle funds bonded?	_____	_____
g.	Is the bank reconciliation and the bank deposits performed by two different people?	_____	_____
3.	<u>Cash Disbursements</u>		
i.	Are all disbursements made by check?	_____	_____
j.	Are prenumbered checks used?	_____	_____
k.	Is a controlled mechanical check protector used?	_____	_____
l.	Does the Board authorize the check signers?	_____	_____
m.	Does the authorized signer sign checks only after they are properly completed?	_____	_____
n.	Does the signer approve and cancel the documentation in support of all disbursements?	_____	_____
o.	Are all voided checks retained and accounted for?	_____	_____
p.	Does the Director or designee review the bank reconciliation?	_____	_____
q.	Is the bank reconciliation and check writing performed by two different people?	_____	_____
4.	<u>Accounts Receivable</u>		
a.	Are billings prenumbered and controlled?	_____	_____
b.	Are Accounts Receivable Sub-ledgers reconciled to General Ledger balances on a monthly basis?	_____	_____
c.	Are Accounts Receivable Sub-ledgers maintained by someone having no access to the cash handling or deposit functions?	_____	_____
d.	Are monthly statements sent to all Clients?	_____	_____
e.	Does the Director or designee periodically review accounts receivable aging reports?	_____	_____
f.	Do client account adjustment/writeoffs have approval at the proper level of management?	_____	_____
g.	Are controls in place to ensure all services rendered are properly billed to recipient?	_____	_____
h.	Are adequate policies in place to ensure effective collection and follow-up of past due accounts?	_____	_____
i.	Are controls in place to ensure proper application of cash receipts to client accounts?	_____	_____

5. Petty Cash Funds

- | | | | |
|----|--|-------|-------|
| a. | Is an imprest petty cash fund used? | _____ | _____ |
| b. | Is one person independent of accounting procedures solely responsible for maintaining the petty cash fund? | _____ | _____ |
| c. | Are petty cash vouchers: | | |
| 1. | Required for each petty cash disbursement? | _____ | _____ |
| 2. | Prenumbered? | _____ | _____ |
| 3. | Signed by the recipient? | _____ | _____ |
| 4. | Executed in ink? | _____ | _____ |
| 5. | Canceled after use? | _____ | _____ |
| d. | Are there written policies that cover limitations on the amount of disbursement, approval requirements and other restrictions? | _____ | _____ |
| e. | Are vouchers and supporting documents checked by a responsible employee at the time of the reimbursement? | _____ | _____ |
| f. | Are reimbursement checks made payable to the petty cash custodian? | _____ | _____ |
| g. | Are disbursements posted to appropriate expense classifications when the fund is replenished? | _____ | _____ |
| h. | Are surprise counts made at reasonable intervals? | _____ | _____ |
| i. | Are loans and personal check cashing activities strictly prohibited? | _____ | _____ |
| j. | Is the Petty Cash imprest amount periodically reviewed for reasonableness? | _____ | _____ |
| k. | Are discrepancies in the Petty Cash Reconciliation adequately investigated and resolved? | _____ | _____ |
| l. | Is supporting documentation required to be submitted with the petty cash voucher prior to disbursement of petty cash funds to the requestor? | _____ | _____ |

6. Inventories

- | | | | |
|----|--|-------|-------|
| a. | Is the person responsible for inventory someone other than the bookkeeper? | _____ | _____ |
| b. | Are periodic physical inventories taken? | _____ | _____ |
| c. | Is there physical control over inventory stock? | _____ | _____ |
| d. | Are perpetual inventory records maintained? | _____ | _____ |
| e. | Are reorder points established for key stock items? | _____ | _____ |
| f. | Are inventories maintained at a level as to avoid consistent stock-outs, or spoilage/obsolescence? | _____ | _____ |
| g. | Are stock item activity reports maintained for each stock item? | _____ | _____ |
| h. | Has an acceptable inventory valuation method been adopted? | _____ | _____ |
| i. | Are all inventory transactions evidenced by the proper supporting documentation, i.e., purchase orders, requisitions, adjustment memos, physical counts, etc.? | _____ | _____ |
| j. | Are stock items monitored for obsolete/slow moving items? Are obsolete items removed from inventory and written off, and an attempt made to sell for scrap? | _____ | _____ |

7. Property Assets

- | | | | |
|----|---|-------|-------|
| a. | Are adequate asset listings detailing description, location, asset number, serial number, cost, depreciation allowances and net book values maintained and reviewed by management? | _____ | _____ |
| b. | Are all assets tagged, and assigned a unique asset number which is traceable to the above referenced asset listing? Are all assets owned by ADHS, in possession of the contractor included on this listing? | _____ | _____ |
| c. | Are procedures in place to ensure that asset additions, disposals, retirements, replacements, and transfers are properly accounted for? | _____ | _____ |
| d. | Is there adequate security over capital assets? | _____ | _____ |
| e. | Are capital asset purchases approved by the appropriate level of management? | _____ | _____ |
| f. | Is an annual physical inventory of equipment taken as a control over assets? | _____ | _____ |

8. Accounts Payable and Purchases

- | | | | | |
|----|---|-------|-------|-------|
| a. | Are purchase orders used? | _____ | _____ | _____ |
| b. | Does someone other than the bookkeeper always do the purchasing? | _____ | _____ | |
| c. | Is the "Receiving " function independent from the procurement and accounts payable functions? | _____ | _____ | |
| d. | Are suppliers' monthly statements compared with recorded liabilities regularly? | _____ | _____ | |
| e. | Are suppliers' monthly statements checked by the Director periodically if disbursements are made from invoice only? | _____ | _____ | |
| f. | Are items invoiced compared to purchase order in regard to price and quantity? | _____ | _____ | |

9. Payroll

- | | | | |
|----|--|-------|-------|
| a. | Are time and attendance records maintained? | _____ | _____ |
| b. | Does the appropriate supervisor examine and approve the time cards for accuracy? | _____ | _____ |
| c. | Is there proper separation of duties so that persons preparing the payroll do not perform other payroll duties or have access to other payroll data or cash? | _____ | _____ |
| 1. | Is timekeeping separated from the payroll preparation? | _____ | _____ |
| 2. | Are payroll checks/envelopes distributed by someone other than a person involved in the direct payroll function? | _____ | _____ |
| d. | Are all clerical operations in payroll preparation double checked before payment is made? | _____ | _____ |
| e. | Are payrolls approved by a responsible official prior to payment? | _____ | _____ |
| f. | Are all employees paid by check? | _____ | _____ |
| g. | Is the payroll account reconciled by an employee who does not prepare the payroll, sign checks or handle the pay offs? | _____ | _____ |

**ARIZONA DEPARTMENT OF HEALTH SERVICES
CAPITAL EQUIPMENT EXPENDITURE REPORT
SUBVENTION CONTRACTS**

CONTRACTOR NAME

CONTRACT NUMBER

REPORT MONTH

NAME OF ITEM	DESCRIPTION*	DATE OF PURCHASE	TOTAL PURCHASE COST INCLUDING FREIGHT AND TAX	ADHS USE ONLY ADHS I.D. TAG NUMBER ASSIGNED
		TOTAL		

*Model Numbers, Serial Number, Brand Name, Number of Drawers,
Letter or Legal, Single or Double Pedestal, Arms or Without Arms,
Executive, etc.

SIGNED: _____
Authorized Contractor Signature and Date

TAGGING INSTRUCTIONS: ADHS Inventory Control Office will assign
and affix I.D. Tag numbers and return a copy of this report with the assigned
tag numbers.

ADHS USE ONLY:

Date Returned: _____

Inventory Control Officer Signature:

ARIZONA DEPARTMENT OF HEALTH SERVICES

BASIS FOR COST ALLOCATION

<u>Central Services Costs</u>	<u>Statistical Basis For Allocation</u>
Depreciation and Use	Square Feet
Leases and Rentals - Building	Square Feet
Insurance - Building	Square Feet
Insurance - Other	Contractor FTE
Licenses and Taxes	Square Feet
Finance	Square Feet
Data Processing	Machine Time
General Administration	Contractor FTE
Communications (Radio & Telephone)	Units/Department
Heat, Light and Power	Meter or Square Feet
Interest	Square Feet or Value
Motor Pool (Including Vehicle Depreciation and Insurance)	Assigned Vehicles
Printing and Duplicating	Actual Use (Miles)
Professional Services	Actual Costs
Custodial	Contractor FTE or Actual Expense
Maintenance	Square Feet
Payroll Related	Actual Expense
Personnel	Actual or FTE
Purchasing	Contractor FTE
Security	Actual Cost
Parking	Square Feet
Water and Sewer	Square Feet
Refuse Disposal	Contractor FTE
Publishing and Advertising	Contractor FTE
Printing and Binding	Actual Cost
Office Supplies	Actual Cost
Record Storage	Actual Cost or Contractor FTE
State Personnel System Cost (\$60.00/employee)	Square Feet Used
	FTE

STATEMENT OF IN-KIND CONTRIBUTIONS

Donor's Name _____ **Number** _____

Donor's Address _____ **Date** _____

Basis of Valuation of Donation

QUANTITY	UNIT	ITEM	AMOUNT	
TOTAL				

The above listed items received by: _____

Signature and Date